

**IN THE INCOME TAX APPELLATE TRIBUNAL
'SMC' BENCH, BANGALORE**

**BEFORE SHRI WASEEM AHMED, ACCOUNTANT MEMBER AND
SHRI KESHAV DUBEY, JUDICIAL MEMBER**

ITA No.2915/Bang/2025
Assessment Year: 2012-13

Kanaka Credit Co-operative Society Ltd., No.01, HH Main Road, Hosadurga, Chitradurga. PAN – AAAAK 1889 N	Vs.	The Income Tax Officer, Ward – 1, Chitradurga.
APPELLANT		RESPONDENT

Assessee by	:	Shri Girish T.L, CA
Revenue by	:	Shri Ganesh R Ghale, Advocate – Standing Counsel for Revenue

Date of hearing	:	11.03.2026
Date of Pronouncement	:	17.03.2026

ORDER

PER WASEEM AHMED, ACCOUNTANT MEMBER:

The present appeal has been instituted by the assessee against the order of the Ld. CIT(A) passed u/s 250 of the Act dated 23.09.2025.

2. The only issue raised by the assessee is that the Id. CIT-A erred in denying the benefit of deduction under section 80P of the Act.

3. The facts in brief are that the assessee, a cooperative society, is engaged in the business of providing credit facility to the members. For the year under consideration, the assessee filed return of income

claiming deduction under section 80P(2)(a)(i) of the Act for Rs. 49,07,992/- only. During the assessment proceedings, the AO noticed that the assessee has earned interest income from cooperative bank and nationalized bank for a sum of Rs. 11,31,664/- which was included in the income claimed as deduction under section 80P of the Act. The AO completed the assessment under section under section 143(3) of the Act wherein disallowed the deduction under section 80P of the Act on the amount of interest income earned from deposit with cooperative bank and nationalized bank for a sum of Rs. 11,31,664/- and brought to tax as per section 56 of the Act.

4. The disallowance made by the AO was further confirmed by the learned CIT(A) vide order dated 22nd June 2017. However, the learned CIT(A) directed the AO to allow corresponding expenditure as per section 57 of the Act.

5. In pursuance to the order of the learned CIT(A), the assessee before the AO made claim of deduction of corresponding expenses (cost of funds) of Rs. 7,23,733/- only. However, the AO in the order giving effect provided deduction of 2% of total expenditure as an admirative expenditure which was computed at Rs. 1,53,347/- only.

6. Being aggrieved, the assessee preferred to file an appeal before the learned CIT(A) against the order giving effect.

7. Before the learned CIT(A), it was argued that the assessee is entitled for deduction under section 57 of the Act against the interest income earned from deposit with bank. Therefore, such interest income

is required to be reduced by the administrative expenses as well as other proportionate expenses to earn such interest income. The assessee further submitted that interest paid on members deposit varies based on various factors. Hence fixed interest rate cannot be taken for the computation of proportionate expenses against interest income from the deposits of the fund. Therefore, the assessee submitted the reasonable expenses be allowed u/s 57 of the Act which is arrived at Rs. 9,50,599/- as cost of fund and 3,95,880/- as administrative expenses.

7.1 The learned CIT(A) dismissed the assessee's argument by holding that the assessee has not furnished any basis or formula to arrive at the sum of Rs. 9,50,599/- as cost of fund and 3,95,880/- as administrative expenses. The learned CIT(A) confirmed the AO's action of order giving effect allowing 2% of total expenditure as administrative expenses by holding the same as reasonable and fair.

8. Being aggrieved by the order of the learned CIT(A), the assessee is in appeal before us.

9. The learned AR before us argued that deposit with the nationalized and cooperative bank was made in compliance with the mandatory requirement of Karnataka Cooperative Society Act. Therefore, the interest earned from such compulsory deposit is attributable to assessee's business operation of providing credit facility. Therefore, deduction under section 80P(2)(a)(i) of the Act shall be allowed on such interest income.

9.1 The Ld. AR further submitted that the Ld. CIT(A) erred in not allowing the actual cost of funds incurred for earning interest income amounting to Rs. 11,31,664. It was contended that the investments generating such interest income were made out of the deposits collected from the members and therefore the corresponding cost of funds has a direct nexus with the earning of such income. Accordingly, the actual cost incurred for earning the interest income ought to have been allowed while computing the taxable income.

9.2 The Ld. AR further submitted that the Ld. CIT(A) arbitrarily restricted the administrative expenditure attributable to such interest income to 2 percent of the total expenditure without assigning any basis or computation. It was argued that such ad hoc estimation is without any factual foundation and contrary to the accounting records of the assessee. Therefore, the proportionate expenditure directly relating to the earning of such income ought to have been allowed in full.

10. On the contrary, the Ld. DR submitted that the issue relating to allowability of deduction u/s 80P(2)(a)(i) of the Act on the interest income from bank deposits already stands concluded by the order of the Ld. CIT(A) dated 22.06.2017, wherein the claim of the assessee was rejected and the said order has attained finality as the assessee did not prefer any further appeal before the Tribunal. Therefore, the assessee cannot now reopen the said issue in the present proceedings which arise only from the order giving effect.

10.1 The Ld. DR further submitted that the AO has already allowed a reasonable estimate of administrative expenditure at 2 percent of the

total expenditure as deduction u/s 57 of the Act and therefore the order of the Ld. CIT(A) confirming the same does not call for any interference. We have carefully considered the rival submissions and perused the materials available on record. The facts of the issue hand are elaborately discussed in preceding paragraphs and there is dispute to that effect. Hence, we are inclined to repeat the same for the sake of brevity and convenience.

11. At the outset, we deal with the first argument of the Ld. AR that the interest income earned from deposits with nationalised and cooperative banks is eligible for deduction u/s 80P(2)(a)(i) of the Act on the ground that such deposits were made in compliance with the provisions of the Karnataka Cooperative Societies Act and therefore the income is attributable to the business of providing credit facilities to members.

11.1 In this regard, we note that the issue relating to the allowability of deduction u/s 80P(2)(a)(i) of the Act on the interest income of Rs. 11,31,664/- earned from bank deposits was already examined in the original appellate proceedings. The Ld. CIT(A), vide order dated 22.06.2017, held the said interest income is to be taxable under the head "Income from other sources" and rejected the claim of deduction u/s 80P(2)(a)(i) of the Act. However, while confirming the action of the AO, the Ld. CIT(A) directed the AO to allow the corresponding expenditure incurred for earning such income in accordance with the provisions of section 57 of the Act.

11.2 It is an undisputed fact that against the aforesaid order dated 22.06.2017 passed by the Ld. CIT(A), the assessee did not prefer any further appeal before the Tribunal. Therefore, the finding of the Ld. CIT(A) holding that the said interest income is not eligible for deduction u/s 80P(2)(a)(i) of the Act has attained finality. The present proceedings arise only from the order passed by the AO giving effect to the directions of the Ld. CIT(A), wherein the limited issue relates to the allowability of the corresponding expenditure u/s 57 of the Act. Accordingly, in the present appeal we cannot re-examine the issue relating to eligibility of deduction u/s 80P(2)(a)(i) of the Act. The argument of the Ld. AR on this aspect is therefore rejected.

12. Coming to the next contention of the Ld. AR relating to allowability of corresponding expenditure, we notice that the AO in the order giving effect allowed only 2 percent of the total expenditure as administrative expenses attributable to the earning of interest income. The same view has been affirmed by the Ld. CIT(A) by holding that the estimation made by the AO is reasonable.

12.1 However, we find merit in the submission of the assessee that the investments which yielded the interest income were made out of the funds collected from members in the form of deposits and therefore the interest paid on such deposits may constitute the cost of funds having nexus with the earning of such income. Similarly, certain administrative expenses may also have relation with the management and maintenance of such deposits and investments.

12.3 In our considered view, the claim of the assessee regarding cost of funds in the nature of interest paid on members' deposits and the administrative expenses requires proper examination and verification with reference to the books of account and supporting records. Since such verification has not been carried out by the lower authorities in detail, we deem it appropriate to restore this limited issue to the file of the AO. Accordingly, the AO is directed to verify the claim of the assessee with respect to the cost of funds being interest paid on deposits from members and the administrative expenses relatable to the earning of the interest income. After due verification, the AO shall allow the corresponding expenditure in accordance with the provisions of section 57 of the Act to the extent it is found to have been incurred wholly and exclusively for earning such income. Needless to say, the assessee shall cooperate and furnish the necessary details before the AO. Thus, the issue relating to corresponding expenditure u/s 57 of the Act is set aside to the file of the AO for fresh examination in accordance with law. Accordingly, the ground of appeal filed by the assessee is hereby partially allowed in favour of the assessee for statistical purposes.

13. In the result, the appeal filed by the assessee is hereby partly allowed for statistical purposes.

Order pronounced in court on 17th day of March, 2026

Sd/-

(KESHAV DUBEY)
Judicial Member

Sd/-

(WASEEM AHMED)
Accountant Member

Bangalore
Dated, 17th March, 2026

/ vms /

Copy to:

1. The Applicant
2. The Respondent
3. The CIT
4. The CIT(A)
5. The DR, ITAT, Bangalore.
6. Guard file

By order

Asst. Registrar, ITAT, Bangalore